

**QUONSET DEVELOPMENT CORPORATION**  
**MEETING OF THE AUDIT-FINANCE COMMITTEE**

**OCTOBER 15, 2007**

**PUBLIC SESSION MINUTES**

**A meeting of the Audit Finance Committee of the Quonset Development Corporation (the “Corporation”) was held at 3:30 p.m. on Monday, October 15, 2007, at the offices of the Corporation located at 30 Enterprise Drive, North Kingstown, Rhode Island, pursuant to notice to all members of the Audit Finance Committee and a public notice of the meeting as required by the Bylaws of the Corporation and applicable Rhode Island Law.**

**The following directors constituting a quorum were present and participated throughout the meeting as indicated: Robert Crowley, Barbara Jackson, and John G. Simpson. Also present were: Steven J. King, P.E., COO; Kevin M. Barry, Controller.**

**1. CALL TO ORDER:**

**The meeting was called to order at 3:30 p.m. by Mr. Crowley.**

**2. APPROVAL OF MINUTES:**

**Mr. Crowley asked that the minutes be amended to acknowledge that Ms. Jackson initiated the addition of Note 9 to the FY2007 Audited Financial Statements.**

**Upon motion duly made by John G. Simpson and seconded by Robert Crowley, the Committee:**

**VOTED: To approve the minutes of the September 17, 2007 meeting, as amended.**

**Voting in favor were: Mr. Crowley and Mr. Simpson.**

**Voting Against were: None.**

**Approved.**

### **3. FY2009 OPERATING BUDGET:**

**Ms. Jackson entered the meeting at 3:36 PM.**

**Mr. Barry announced to the Committee that the Corporation had met with a representative from the Governor's office and the head of the Budget Office, Rosemary Booth Gallogly. The Corporation was informed that the payment of \$3.5 million was a matter of State law because it was written in and passed by the legislature. Ms. Gallogly recommended that the Corporation, in order to relieve future**

obligations, take some items from the Capital Plan that were to be paid for by Corporation funds and pay for them with Bond Funds. Mr. Barry had responded that this process was not possible in the present year because the Corporation did not request enough Bond funds to cover the year's items and the Corporation would be short. Ms. Gallogly stated that the Budget office would front the Corporation the Bond funds for the current year.

Mr. Crowley stated that the Bond funds were set up for specific items.

Mr. Barry clarified that most of the costs being considered do fall under Bond fund criteria as infrastructure improvements. QDC planned to pay for these items out of Corporation funds because the Capital Budget was about \$70 million and there are only \$48 million in Bonds. Mr. Barry stated that there was always going to be a deficit and the Corporation would end up paying the difference. Mr. Barry continued that Mr. King has already begun reworking next year's Capital Projects and because of these changes, there are some projects that will have to be cut.

Mr. Crowley asked where the \$3.5 million was going to come from for the payment. Mr. Crowley stated he did not see any changes in the Operating Budget related to the payment.

Mr. Barry answered that it will come from the Corporation's bank account and added that the payment was related to Cash Flow items

**so it was not on the Operating Budget.**

**Ms. Jackson suggested that the Corporation set up an official revolving trust fund to restrict this type of grabbing by the government. Ms. Jackson added that the Corporation does not want its good cash management rewarded by an annual grab.**

**Mr. King stated that was exactly what had occurred. The Corporation had tried very hard to be frugal and not spend all available funds upfront to pay for projects and instead spread the \$20 million gap over the five (5) year program and attempting to manage the shortfall on a yearly basis.**

**Ms. Jackson added that if the trust fund could not be set up to show a zero balance at the end of the year then her other suggestion would be to spend the money first so there was nothing to grab.**

**Mr. Barry asked if Ms. Jackson was suggesting that the Corporation spend the \$3.5 million right now so that it was unavailable for the grab.**

**Ms. Jackson said yes; spend the funds now and that would free up Bond money later on. Ms. Jackson added that this was like prepaying your mortgage and in the end puts the problem back on the legislature where it belongs.**

**Mr. Crowley questioned the legality of this option given that the Budget was now state law.**

**Ms. Jackson answered that enacted budgets often end in deficits and surpluses, it was expected. Ms. Jackson continued that the Corporation should go ahead and spend the money.**

**Mr. Crowley asked how this will be done.**

**Ms. Jackson stated that payments should be made from the Operating Budget instead of the Capital Budget and as a result, the Corporation would end up with a Capital surplus which was not available to grab under State law.**

**Mr. Crowley ask if that money was being used to pay for the new QDC building.**

**Mr. King stated that some of the money was being used and that there is a whole series of projects underway totaling \$50 million.**

**Mr. Crowley questioned if these were Capital Projects outside the Bond fund.**

**Mr. King said they are combined and as he indicated before the funds were allocated over the five (5) year program. However, there was nothing stopping the Corporation from making upcoming payments**

**from the money that was on hand and not ask for reimbursement until the Corporation needed it.**

**Ms. Jackson added that these funds were earmarked for use in 2010 so instead the Corporation just uses them in 2007.**

**Mr. Crowley stated that would make Note 9 very clean.**

**Mr. King stated that the difference with Note 9 was that there was a series of projects that the Corporation had planned to use these funds for that are ongoing totaling just under \$3 million. Mr. King continued that there are a few projects that start this fiscal year that the Corporation was going to spend the other \$3 million on but it was these funds that were not actually committed. Mr. King stated this was where the Budget office jumped in and said that the State would take the \$3 million and front the Corporation the \$3 million from the Bond funds.**

**Mr. Crowley asked if these projects will fall under the Bond fund uses.**

**Mr. King stated that all the projects that the Corporation has planned fit into the Bond fund category. Mr. King stated that the problem was that a \$20 million Bond fund deficit already exists and this just pushes the problem off until next year.**

**Mr. Crowley asked how this affects the FY2009 Operating Budget.**

**Mr. King stated that the issue is fairly unrelated to the 2009 Operating Budget.**

**Mr. Crowley asked how the Corporation will avoid this problem with the Budget next year.**

**Mr. Barry stated that Ms. Gallogly told the Corporation that there was no guarantee, however, at the end of the year if there was no money, there was nothing to grab.**

**Ms. Jackson stated that this just confirms that the Corporation should adopt a “pay as you go” policy whenever possible.**

**Mr. King advised the Committee that the Chairman was at the meeting and that he had confirmed with the Governor’s representative and Ms. Gallogly that QDC would be making the \$3.5 million payment.**

**It was acknowledged that this action would not be in line with the judgments of the members of the Audit-Finance Committee.**

**Mr. King stated that there needs to be a conversation about this with the Chairman before enacting this position.**

**Mr. Batty asked to make a comment although he was not a member of the Committee. Mr. Batty stated that the Corporation was a creature**

of the Legislature and only exists because it was created by the Legislature. The Legislature is fully aware that the Corporation has the ability to make this payment based on the Corporation's budget. Mr. Batty expressed concern that the Legislature holds all the leverage in this situation. If the Corporation takes the position to spend this money and not make the payment, without going back to the Legislature and getting an amendment, that the Legislature's response could be something the Corporation can not anticipate including eliminating the Corporation. Mr. Batty suggested that caution be used in this situation.

Mr. Simpson asked if this money was readily available and could be used to make this payment.

Mr. King and Mr. Barry both confirmed that the funds are available.

Mr. Simpson then stated that he agreed with Mr. Batty's recommendation.

There was some discussion on how the legislature came up with the dollar amount and how the payment came to be law.

Mr. Crowley then asked should the Committee recommend approving the FY2009 Budget.

Mr. King stated that the Corporation would like the budget approved



so it can be submitted to the Budget Office. Mr. King added that again FY2009 Operating Budget would not reflect this issue with the \$3.5 million.

Mr. Simpson asked if the FTE are the same in this Budget as the last Budget to include the open positions for Controller/Finance Director and Managing Director and can these positions be affected by the personnel cuts that the Governor was projecting.

Mr. Barry stated that cuts in the Corporation's personnel do not save the State any money because QDC was self-sufficient on an operating basis.

The Committee discussed some of the details of the Operating Budget to include payments to EDC and legal fees/consultants.

Ms. Jackson stated that the Committee should approve this Budget but that it was the Committee's belief that it should have an additional \$3.5 million rolled back to the Corporation from the grab that happened in FY2008.

Mr. Simpson asked why the revenue projected was not more than \$200,000 more for next year based on this Budget.

Mr. Crowley stated that he believed that this number did not include New Boston's revenue.

**Mr. King added that the reason for that was that New Boston will not pay rent until buildings were constructed and New Boston has paying tenants.**

**Mr. Crowley asked about New Boston's option money and was it included in the \$3.5 million dollar grab.**

**Mr. King stated the money was in the bank but not included in the grabbed funds. The cash from the option was hard money and would be utilized.**

**Upon motion duly made by Mr. Crowley and seconded by Ms. Jackson, the Committee:**

**VOTED: To approved the FY2009 Operating Budget.**

**Voting in favor were: Mr. Crowley, Ms. Jackson and Mr. Simpson.**

**Voting Against were: None.**

**Unanimously Approved.**

**Ms. Jackson asked if the FY2009 Operating Budget takes into account changes in Pilot payments to the Town.**

**Mr. King explained that most Pilot payments have been built into the Tenant leases to act as just a pass through.**

**Mr. Barry added that as a worst case scenario the budget has been forecast to show a \$60,000 impact from Pilots for those tenants who don't have the pilot built in.**

**Mr. Crowley asked to see the quarterly cash flows for the most recent quarter.**

**Mr. Barry stated that he expects to have that information next month.**

**There was some discussion on the status on rent receivables including sale closings.**

**Mr. Crowley added for the record that he was unhappy with the response from the Chairman regarding the \$3.5 million payment.**

**There being no further business to come before the Committee, upon motion duly made by Ms. Jackson and seconded by, Mr. Simpson the meeting was adjourned at 4:15 p.m.**

**Respectfully submitted by:**

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**Kevin M. Barry, Controller**